

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1502 – SB 1337

March 31, 2011

SUMMARY OF BILL: Requires the county clerks, or designated city officials, in Davidson, Hamilton, Knox, and Shelby counties to administer and collect classifications 1 through 4 of the business tax, while allowing the Department of Revenue (DOR) to continue administering and collecting classification 5 of the business tax. Authorizes the four specified counties to charge a \$5.00 fee for collecting and recording the business tax, and requires such counties remit 15 percent of all business tax collections received to DOR.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue - \$3,019,600/FY11-12
\$6,039,100/FY12-13 and Subsequent Years

Decrease State Expenditures – \$400,000/FY11-12/Department of Revenue
\$800,000/FY12-13 and Subsequent Years/Department of Revenue

Increase Local Revenue – \$1,509,800/FY11-12
Exceeds \$296,900/FY11-12/Permissive
\$3,019,600/FY12-13 and Subsequent Years
Exceeds \$593,800/FY12-13 and Subsequent Years/Permissive

Increase Local Expenditures – Exceeds \$125,000/FY11-12*
Exceeds \$250,000/FY12-13 and Subsequent Years*

Assumptions:

- On January 1, 2010, DOR began administering and collecting the business tax pursuant to Public Acts 2009, Public Chapter 530. Prior to January 1, 2010, the majority of business tax collections were administered and collected by local government entities.
- Business tax collections (cash collections) for CY2009 were approximately \$134,589,500; for CY2010, cash collections were approximately \$158,745,800. The increase in actual business tax collections from CY2009 to CY2010 was approximately \$24,156,300 (\$158,745,800 - \$134,589,500).

- Business tax collections remain constant at \$158,745,800 each subsequent calendar year under current law.
- The business tax is a variable rate tax on gross sales depending on taxpayer classification and whether the taxpayer is a retailer or wholesaler.
- One-fourth of the growth realized from CY2009 to CY2010 is estimated to be attributable to increasing sales of existing taxpayers occurring as a result of improving economic conditions; another 25 percent is estimated to be attributable to new sales from new taxpayers occurring as a result of improving economic conditions, another 25 percent is estimated to be attributable to a shift in business tax collections from local governments to the state, and another 25 percent is estimated to be attributable to increased taxpayer compliance occurring as a result of DOR administering and collecting the business tax in CY2010.
- Under current law, the dollar growth in business tax collections attributable to a shift of business tax collections from local governments to the state is estimated to be \$6,039,075 ($\$24,156,300 \times 25\%$). This estimate also represents the loss of state revenue, as well as the offsetting increase in local government revenue, that would occur if such revenue were to shift back to the local governments who were administering and collecting the business tax prior to January 1, 2010. Under this bill, the decrease in state revenue, as well as the offsetting increase in local government revenue, that will be attributable to a shift of revenue from the state to Davidson, Hamilton, Knox, and Shelby counties is estimated to be 50 percent of the total estimated if all local governments were to begin administering and collecting the business tax. Therefore, a recurring decrease in state revenue of \$3,019,538 ($\$6,039,075 \times 50\%$); and a recurring increase in local government revenue (to Davidson, Hamilton, Knox, and Shelby counties) of \$3,019,538.
- Under current law, the dollar growth in business tax collections attributable to increased taxpayer compliance occurring as a result of DOR administering and collecting the business tax is estimated to be \$6,039,075 ($\$24,156,300 \times 25\%$). This estimate also represents the loss of state revenue that would occur if all local governments, who were administering and collecting the business tax prior to January 1, 2010, were to begin administering and collecting the business tax. Under this bill, the decrease in state revenue attributable to reduced taxpayer compliance occurring in Davidson, Hamilton, Knox, and Shelby counties (relative to the level of taxpayer compliance occurring under DOR) is estimated to be 50 percent of the total estimated if all local governments were to begin administering and collecting the business tax. Therefore, the recurring decrease in state revenue is estimated to be \$3,019,538 ($\$6,039,075 \times 50\%$).
- The total recurring decrease in state revenue is estimated to be \$6,039,076 ($\$3,019,538$ from a revenue shift + $\$3,019,538$ from reduced taxpayer compliance).
- This bill authorizes Davidson, Hamilton, Knox, and Shelby counties to charge a \$5.00 fee for the collection of business tax from classification 1 through 4 taxpayers. DOR estimates there are approximately 475,000 business tax accounts statewide. At least twenty-five percent of statewide accounts will be administered and collected by Davidson, Hamilton, Knox, and Shelby counties. As a result, the permissive increase in local government revenue is estimated to exceed \$593,750 [$(475,000 \times 25\%) \times \5] each year.

- DOR indicates that departmental expenditures will decrease approximately \$800,000 per year if Davidson, Hamilton, Knox, and Shelby counties begin administering and collecting the business tax from classification 1 through 4 taxpayers.
- The increase in local government expenditures as a result of Davidson, Hamilton, Knox, and Shelby counties administering and collecting business tax from classification 1 through 4 taxpayers is estimated to exceed \$250,000 each year.
- This bill has an effective date of January 1, 2012. As a result, the first-year (FY11-12) impact is estimated to be 50 percent of the first full-year impact.

*Article II, Section 24 of the Tennessee Constitution provides that: *No law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc